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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Huge Dollar Outflows To Japan . . .

The continuing massive U.S. trade deficit with the Japanese in spite of the rise in the yen against the dollar brings up the question of how the Japanese will invest their surplus funds. Clearly, this is of major importance for the international financial markets--not to mention those in the U.S. Since early 1985 the yen has appreciated by around 75 percent against the dollar, and other major currencies have also jumped. The German mark, for example, has appreciated over 80 percent against the dollar, while the British pound is up about 55 percent.

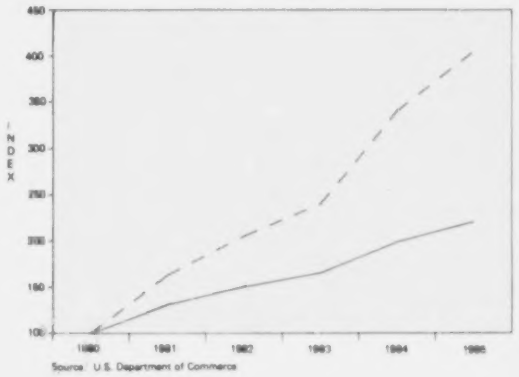
Since the early 1980s, as massive U.S. trade and current account deficits generated huge dollar surpluses abroad, much of it has come back to these shores, resulting in a sharp growth of foreign investment in this country. The already substantial inflow of investment funds has become a veritable flood since early 1982 as the depreciating dollar has made U.S. assets ever cheaper in terms of the world's other major currencies. And hefty U.S. monthly trade deficits for the first two months of 1987 suggest that the same forces are still at work this year as well.

Total foreign investment in the U.S. reached close to $877 billion at the end of 1985, the latest period for which detailed information is available. A further $420 billion is estimated to have been invested in 1986 adding almost half again to total foreign investment in this country. About $500 to $600 billion of the total foreign investment represents the external liabilities of U.S. banks--a volatile factor. But the rest is spread among investments in government securities, corporate stocks and bonds, real estate and direct investment (i.e., over ten percent ownership) in U.S. companies.

. . . Fuel Investments In Financial Markets . . .

Significantly it has been the Japanese in the last few years who have expanded their financial and business interest in the United States most rapidly. Japanese banks have been aggressive in their pursuit of lending opportunities in this country, often at very narrow spreads over their cost of funds. They have also played an important role in financing the spate of mergers and acquisitions, leveraged buyouts and consolidations over the past few years. Japanese firms and individuals have been active traders in the securities markets--both government and corporate--as well. At the end of 1986 the Japanese were estimated to have held over $90 billion in U.S. government and corporate bonds and added an estimated $7 billion to their stock portfolios.

FOREIGN INVESTMENT IN THE U.S.: TOTAL (LINE) VS. JAPAN (DOT)
(1980=100)



Source: U.S. Department of Commerce

But Japanese interest in the U.S. is not confined to financial market operations. Virtually no aspect of American enterprise is untouched. Last year Japanese investors bought $6 billion worth of property in the U.S., three times the amount purchased the year before. Much of this was prime urban real estate such as Los Angeles' Arco Plaza and New York's Exxon Building. Office buildings account for about 60 percent of Japanese property holdings in this country, but other types of property including farmland, shopping centers and suburban properties are in their real estate portfolio as well. And the real estate industry is looking forward to further Japanese investments in domestic property markets this year.

Although Japanese investments in U.S. financial markets are far larger than their direct investments, it is the latter that stand out most clearly and capture the attention of the public. Japan still ranks third after the United Kingdom and the Netherlands in

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terms of total direct investments here, but they are closing the gap rapidly. Indeed, in recent years the growth rate of Japanese direct investment in this country has far outstripped total direct investment (see chart on page 1) and is expected to continue to do so again this year.

. . . And Direct Ownership

Total direct investment by the Japanese exceeded $19 billion at the end of 1985, and as much as $10 billion may have been added in 1986. Japanese participation in U.S. industry is widespread; the Japanese own 50 percent or more of over 435 U.S. manufacturing firms spread over a wide range of businesses from the most basic to the most sophisticated. Indeed, the ability of Japanese parent firms to access the latest technological developments through their U.S. companies is becoming a matter of serious concern—witness the recent U.S. government intervention in the proposed Fujitsu acquisition of Fairchild Semiconductor Corporation.

The inroads into the U.S. market by Japanese automobile manufacturers have also gained widespread attention. Not only do the largest Japanese automobile producers such

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/25/87)	158,226	– 175	– 5,353
New York City (4/1/87)	35,832	+ 199	+ 789
Commercial Paper (4/1/87)	334,280	– 4,796	+ 33,607

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/25/87)	280,220	– 971	+19,131
New York City (4/1/87)	63,277	– 1,338	+ 4,302

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/25/87)	781,893	– 4,965	+48,994
New York City (4/1/87)	175,567	+ 3,512	+15,445

Financial Markets

	Friday 4/10/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.98%	+ .36	– .15
180-Day Bills†	6.21	+ .30	– .07
Longest Bills†	6.52	+ .43	+ .20
Recent Issues:			
63/8S 3/31/89	6.91	+ .35	
63/4S 3/31/91	7.47	+ .46	
71/2S 11/15/96	7.94	+ .37	
71/2S 11/15/16	8.17	+ .28	
Municipals:			
Bond Buyer—20 Bond Index* (4/9/87)	7.27%	+ .34	+ .02
Blue List Total ($ Million)	$2,678	– $111	+ $588
30-Day Visible Supply ($ Million)	$3,394	+ $625	– $604
Total	$6,072	+ $514	– $ 16
Corporates:			
Moody's Aa Composite (4/9/87)	8.92%	– .04	– .27
30-Day Visible Supply ($ Million)	$6,123	+ $2,710	+$3,863
Stocks:			
Dow-Jones Averages:			
Industrials	2,338.78	– 51.56	+548.60
Transportation	950.26	– 1.17	+164.20
Utilities	204.34	– 8.98	+ 16.15
65 Stocks	870.13	– 16.77	+171.67
N.Y.S.E. Composite Index	165.72	– 4.48	+ 29.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	178,617	– 13,217	+27,037

*46% Taxable equivalent 13.46%. † Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/10/87	Week Ago
Overnight	6.25%	5.88%
1 month	6.25	6.38
3 month	6.63	6.50
6 month	6.81	6.56
1 year	7.13	6.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.13%
Long Term (7 to 15 yrs.)	7.93	7.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/10/87)	Currency Per U.S. $	Week Ago
Canada	1.3024	1.3077
France	6.0280	6.0385
Germany	1.8045	1.8140
Italy	1287.50	1293.00
Japan	141.65	145.75
Mexico	1148.00	1135.00
Switzerland	1.4960	1.5142
U.K.*	1.6275	1.6135

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (4/10/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–0.5%	–6.3%

as Toyota and Nissan now have manufacturing plants here, but several of the second-tier producers—Isuzu, Mazda and Subaru, for example, are planning to establish assembly plants in the U.S. over the next few years. By 1991 Mazda expects to build 120,000 vehicles here.

It is clear that not only is the Japanese surge in investment in the U.S. pervasive, but that it represents the perception on the part of Japanese industry that for any company to be taken seriously as a global business entity a strong presence in the U.S. economy is a *sine-qua-non*. However, in spite of the growing presence of foreign investment in this country we have a long way to go before we become an economic fiefdom of Japan. For example, the Japanese hold only 2½ percent of outstanding U.S. Treasury securities. Foreigners as a whole own less than one percent of U.S. real estate. Further, only two to three percent of U.S. industry is foreign-owned and less than five percent of corporate earnings go to foreign owners. Nonetheless, Japan alone is expected by some observers to increase the dollar value of its U.S. holdings by an average of ten percent per year through the end of this century. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/8/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	207.609	+ 3.341	+23.262
Loans to Depository Inst.	.591	− .099	− .361
Float	.650	− .438	− .034
Total Reserve Bank Credit	225.401	+ 2.700	+23.975
Treasury Deposits with Federal Reserve Banks	3.923	+ .898	+ .558
Currency in Circulation	208.895	+ 1.500	+14.542
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	178.243	+ 2.145	+36.029
	4/8/87		
Member Bank Reserves:			
Total Reserves Held	56.331	+ .979	+ 9.207
Excess (Deficiency)	.840	− .133	− .218
Net Free Reserves	.447	− .261	+ .123

Monetary Aggregates †		% Change Since 3 Months' Ago*	% Change Since Year Ago
M1 (3/30/87)	738.9	+ 5.9‡	+ 15.8‡
M2 (February '87)	2,821.3	+ 6.6	+ 9.3
M3—(February '87)	3,520.0	+ 7.0	+ 8.5
Domestic Nonfinancial Debt (4th Q'86)	7,680.6	+ 13.8	+ 12.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 4/10/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.86%	5.92%	6.06%
* Federal Agencies	6.00	6.02	6.25
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.80	8.33	8.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.45	6.58	6.85

‡Finance Company Paper—Prime

5- 14 days	6.23%
15- 29 days	6.28
30- 59 days	6.33
60- 89 days	6.28
90-179 days	6.23
180-239 days	6.10
240-270 days	6.10

‡* Bankers' Acceptances

Apr.	6.25%
May	6.25
Jun.	6.25
Jul.	6.25
Aug.	6.25
Sep.	6.25

‡Industrial Paper—Prime

30- 89 days	6.30%
90-120 days	6.25

†Federal Funds Effective Rate 6.30%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'86	$ 4,259	$ 4,241	$ 4,088
Gross National Product (1982 Dollars)*	4th Q'86	$ 3,696	$ 3,686	$ 3,622
Percent Change, Annual Rate	4th Q'86	1.1	2.8	2.1
Change in Consumer Prices*	Feb '87	4.8% (1)	8.4% (1)	− 3.6%
Change in Producer Prices*	Mar '87n	4.8%	1.2% r	− 10.8%
Civilian Employment (Thousands of Persons) †	Mar '87n	111,368	111,382	108,807
Unemployment as % of Civilian Labor Force †	Mar '87n	6.6%	6.7%	7.2%
Personal Income*	Feb '87	$ 3,581	$ 3,549	$ 3,435
Leading Indicators Composite Index (1967=100)†	Feb '87n	187.1	185.8r	175.0
Industrial Production Index (1977=100) †	Feb '87	127.3	126.8	125.3
Net Change in Consumer Installment Credit †	Feb '87n	$ 1.77	$ 0.79r	$ 5.08
U.S. Merchandise Trade Balance	Jan '87	−$ 14.78	−$ 12.73	−$ 14.42
Plant and Equipment Expenditures*	1st Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Feb '87	1,851	1,804	1,923
New Construction Expenditures*	Feb '87n	$ 378.4	$ 374.8r	$ 373.9
Total Business Inventories †	Jan '87	$ 592.2	$ 586.6	$ 585.0
Total Business Sales †	Jan '87	$ 428.8	$ 448.8	$ 432.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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